

**Report of the Chief Constable to the Chair and Members  
of the Policy & Resources / Corporate Development Panel  
10<sup>th</sup> December 2008**

**Executive & Presenting Officer: Mr Graeme Slaughter, Temporary Assistant  
Chief Officer (Finance & Commissioning)**

**Status: For Information**

**Treasury Management to 31<sup>st</sup> October 2008**

**1 Purpose**

- 1.1 Local Authorities' (including Police Authorities) treasury management activities are prescribed by the Local Government Act 2003. Essentially a police authority may borrow or invest for any purpose relevant to its functions, under any enactment, or 'for the purpose of the prudent management of its financial affairs'.
- 1.2 Members agreed an investment strategy for 2008/09 at their meeting of 28<sup>th</sup> February 2008. This initial strategy was updated and approved by Members at their meeting on 30<sup>th</sup> September 2008. This report is to update Members on the status of the Authority's investments and borrowing. It is part of the process introduced by the Authority to maintain prudent financial management.
- 1.3 Due to the unprecedented turbulence of the financial markets, Members resolved to delegate authority to amend the approved List of Counterparties and the Investment Limits with institutions to the Chief Executive in consultation with the Deputy Section 151 officer at their meeting on the 30<sup>th</sup> September 2008. The delegation was to enable speed of action when responding to emerging risks to the Authority's investment portfolio. This delegated authority would automatically be withdrawn at 31<sup>st</sup> March 2009.

**2 Recommendations**

- 2.1 Members are requested to note the contents of the report.

### **3 Reasons**

#### **3.1 Market Conditions**

Market conditions continue to be turbulent. Local Authorities are reported as having difficulty in finding enough safe institutions for them to be able to spread their risk. As a consequence they are investing in the Debt Management Account Deposit Facility (DMADF) of the Treasury. This carries the Government's sovereign AAA credit rating which is the highest available security. However, the quid pro quo for lower risk is lower interest receivable and less flexibility over cash flow management.

3.2 Although, the Authority has been successful in spreading its risk to date, there may be difficulties in future as some of the lower risk institutions will not accept deposits under £10m or for less than 3 months. Consequently, we are opening a facility with DMADF that can be utilised if required.

#### **3.3 Returns on Investments**

On the 8<sup>th</sup> October the Bank of England lowered interest rates from 5.0% to 4.5%. It then further reduced this rate by 1.5% to 3.0% on the 6<sup>th</sup> November. The first interest rate cut impacted on the investments that we made during November and the second, more substantial cut, will impact on the investments we make for the remainder of this financial year. The Budget Monitoring Report, that is also on today's agenda, factors in a net over-recovery against interest receivable budgets of £200k. This should still be achieved but will be reviewed on an on going basis.

3.4 However, the impact on the Long Term Financial Plan (LTFP) is potentially significant. The LTFP is based on having £16m invested throughout the year at an interest rate of 5% generating £800k of interest. If the rates on investments continue at 3% during 2009/10 then this would reduce the interest received by £320k creating a substantial pressure.

#### **3.5 Bank of Ireland**

This bank was deemed a low risk option given the guarantee given by the Irish Government on all deposits in Irish owned banks to 2010. Under delegated authority the investment limit with the Bank of Ireland was increased to £4m to enable the placement of a £4m investment on the 3<sup>rd</sup> October. This investment was reviewed during October and the funds returned to the Authority on the 15<sup>th</sup> October.

#### **3.6 NatWest**

NatWest are our current bankers and part of the RBS group, they have had their recapitalisation underwritten by the Government who may end up owning 60% of the Company. They also have access to the £200bn fund set aside by the Government to encourage interbank lending. As a result of this, and the restrictions faced when trying to invest money elsewhere, the counterparty limit on NatWest was increased to £10m under delegated

authority. Two investments totalling £7m were then placed with NatWest on the 16<sup>th</sup> October.

### 3.7 Scarborough Building Society

Members may have noted in the press on the 3<sup>rd</sup> November that Scarborough Building Society announced its intention to merge with the Skipton Building Society. This is reported as being due to difficult trading conditions leading to a substantial impact on profit and a resultant weakening capital position at the Scarborough Building Society. As can be seen in 3.8 below the Authority, at the time of writing, has an investment of £0.5m with this organisation. The situation has been reviewed and there appears to be no apparent risk to this investment as the merged society is expected to be the 5<sup>th</sup> largest Building Society in the country with assets of over £16bn.

### 3.8 Investments

As at the end of October the Force had £19.0m of external investments in place, these are noted in the table below, this is as forecast, and compares to £22.0m at the same time last year.

<b>Investment Placed With</b>	<b>Date Investment Made</b>	<b>Date Investment will Mature</b>	<b>Amount Invested</b>
NatWest	16.10.08	21.11.08	4,000,000
Scarborough	16.09.08	21.11.08	500,000
NatWest	16.10.08	01.12.08	3,000,000
Cheshire BS	04.08.08	19.12.08	3,000,000
Northern Rock	02.10.08	16.01.09	3,000,000
Nottingham BS	18.07.08	09.04.09	2,700,000
<b>Total Time Limited Investments</b>			<b>16,200,000</b>
<u>Amount in High Interest account with our Own Bank</u>			
NatWest High Interest (instant access)			2,780,000
			<u>18,980,000</u>

3.9 These investments are all paying interest of between 4.50% and 6.28%. Given that the Public Works Loan Board are currently charging between 2.51% and 4.93% for Fixed Rate Loans then the returns we are receiving on our investments, whilst not tying up these funds for any great length of time can be viewed as satisfactory. At this current point we are not aware of any concerns relating to the organisations where the Authority's money is currently deposited although this is being reviewed on a regular basis.

### 3.10 Long Term Loans

All loans are from the Public Works Loan Board. The loan profile is set out at Appendix A. As at the end of October the Authority had £11.428m of outstanding long term loans, this is after the repayment of a loan for £355k which expired during September. This is well within the Operational Boundary for External Debt of £13.428m and also the Authorised Limit for External Debt

of £15.428m approved by the Authority on 28<sup>th</sup> February 2008, giving scope for additional borrowing of £4.0m, if required.

- 3.11 Due to the historic nature of the loan profile, the Authority is incurring a range of interest charges of between 4.40% and 5.30% with the average charge being 4.93%. The cost to the organisation of the above loans for this financial year will be £534k as previously reported.
- 3.12 The maturity date of these loans is spread over the next 11 financial years, £355k was repaid during September but no further loans are due for repayment in the current financial year. Appendix B refers.
- 3.13 Cash Flow Forecast  
The graph attached at Appendix C maps the forecast movements in our investment balances across the year against which we monitor actual balances and report back on material variances. For comparison, the graph also shows actual investment levels during the 2007/08 financial year.
- 3.14 The cash balances at the end of October are as forecast. (Appendix C refers).

## **4 Implications**

- 4.1 Finance  
There are no financial implications other than those mentioned above.
- 4.2 Diversity & Equal Opportunities  
Diversity considerations are kept under constant review in line with Force policies and 'Putting People First'. There are no issues arising from this report to bring to Members attention.
- 4.3 Sustainability  
This report is part of the process introduced by the Authority to establish sustainable annual and medium term financial plans and maintain prudent financial management.
- 4.4 Risk  
The Corporate Risk Register contains the following financial risk:
- Insufficient financial resource to deliver operational and strategic objectives.
- 4.5 This is mitigated through:
- Robust financial planning and control processes.
  - Independent 'Robustness of Estimates & Adequacy of Financial Reserves' report prepared by the Section 151 Officer.
  - Contingency plans to redeploy released resource into areas of operational need.

## **5 Conclusion**

- 5.1 Given the current unprecedented turbulence and uncertainty in financial markets and financial institutions, the protection of the Authority's underlying investments is of utmost importance. The investment strategy that underpins this has recently been reviewed and amended to enable a quick response to changes in market conditions as they take place. Consequently, the Authority continues to manage its cash resources in a low risk yet highly liquid manner.

Sean Price  
Chief Constable

## APPENDIX A

### Schedule of Fixed Rate Loans

Loan Number	Balance	Interest Rate	Loan Repayment Date	Annual Interest Charges
	£000	%		£000
480212	Repaid	Repaid	Sep-08	24
481392	320	5.000	Sep-09	16
483442	354	5.250	Sep-10	19
485148	385	5.000	Sep-11	19
486372	575	5.125	Sep-12	29
487161	1,106	4.625	Sep-12	51
488248	860	5.300	Sep-13	46
489234	1,340	4.800	Sep-14	64
489425	1,100	4.700	Sep-15	52
491366	872	4.400	Sep-16	38
493143	872	4.950	Mar-17	43
494503	872	4.520	Sep-18	39
494694	2,772	5.080	Sep-19	94
<b>Totals</b>	<b>11,428</b>			<b>534</b>

## APPENDIX B

### Repayments to be made

Financial Year		£000
2008/9		Repaid
2009/10		320
2010/11		354
2011/12		385
2012/13		1,681
2013/14		860
2014/15		1,340
2015/16		1,100
2016/17		1,744
2018/19		872
2019/20		2,772
<b>Total</b>		<b>11,428</b>

## APPENDIX C

### Forecast Investment Balances

